

# CR Beer (291 HK)

## 4Q likely in line with on track premiumization progress; our sector top pick

CR Beer attended our 4Q preview call today. Management guided for a solid 2021, with growth and premiumization progress likely coming in in-line with our expectation. While consensus previously seems to be too aggressive in assuming the Company's recurring EBIT growth (~25%+), we feel that our estimate of an early 20% growth looks more reasonable. Earnings risk is well-contained, in our view, unless recent round of pandemic persists into 2Q and disrupts the Company's 2022E shipment target. We view any correction as a good entry point. We are Buy-rated.

- **2021 guidance generally in line with the takeaway from our Consumer Corporate Day in November.** Management guided for a flat to LSD decline to 2021 shipment with a ~5% ASP uptick. This implies 2H volume and ASP to be about a HSD decline and a LSD increase, decelerating from +4.9% and +7.5% in 1H21, respectively.
- **2021E premium/ sub-premium volume growth maintains at early 30%.** The upgrade has also pushed up 2021E premium/ sub-premium volume contribution to 17.3%, in our view, from 13.2% in 2020. The trend also solidifies any GPM expansion despite higher raw material inflation over 2H21.
- **2022E looks to be another solid year,** with LSD growth in shipment and an even strong price hike than 2021E. The former will be driven by a ~20% sub-premium+ volume growth, while the latter will be sustained by further price hike including any like-for-like price increase for existing products, which include both mass market and sub-premium+ SKUs.
- **Recent lockdown unlikely to represent a big volume disruption to 2022E target,** as shipment over the slack season unlikely to be very meaningful (about low-to-mid teen) to full year contribution. We keep watching the trajectory.
- **Valuation.** Our TP is still based on 3-year average 29.0x end-22E EV/EBITDA. We set our target multiple at LT average to reflect any mean-reversion once investors look past the current volume hiccup, and upon the realization of gross margins expansion, as market consensus now expects.

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	33,190	31,448	33,393	35,852	38,454
YoY growth (%)	4.2	(5.2)	6.2	7.4	7.3
Net income (RMB mn)	1,312	2,094	4,431	4,588	5,402
EPS (RMB)	0.6	0.8	1.0	1.4	1.7
YoY growth (%)	(2.1)	32.6	20.3	43.0	17.7
Consensus EPS (RMB)	N/A	N/A	0.9	1.3	1.7
P/E (x)	N/A	N/A	54.3	38.0	32.3
P/B (x)	N/A	N/A	7.0	6.3	5.6
Yield (%)	N/A	N/A	0.7	1.1	1.2
ROE (%)	10.4	13.0	13.9	17.5	18.3
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$88.0**  
(Previous TP **HK\$88.0**)  
Up/Downside **+47.2%**  
Current Price **HK\$59.8**

### China Consumer Staples

**Joseph Wong**  
(852) 3900 0838  
josephwong@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	188,000
Avg 3 mths t/o (HK\$ mn)	450.4
52w High/Low (HK\$)	53.4/76.4
Total Issued Shares (mn)	3,244

Source: Bloomberg

#### Shareholding Structure

CRH Beer	51.7%
Morgan Stanley	4.7%
HHLR Advisor	4.1%

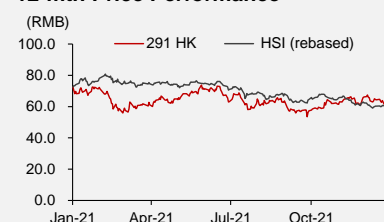
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-12.2%	-11.2%
3-mth	1.1%	6.1%
6-mth	-8.2%	6.0%

Source: Bloomberg

#### 12-mth Price Performance



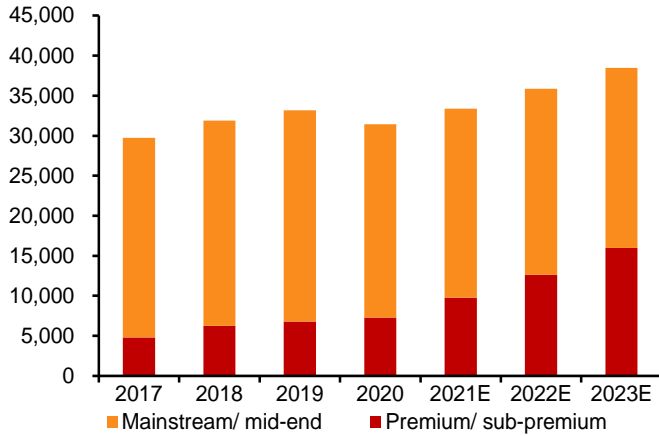
Source: Bloomberg

Auditor: Deloitte

#### Related Reports

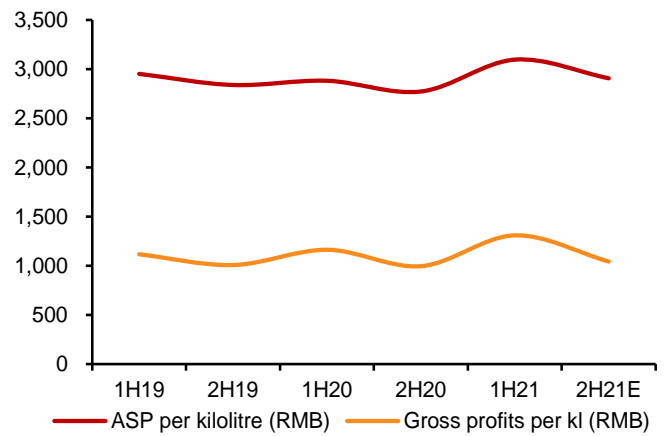
1. ["Marketing feedback – inflation & price hikes were key words that appeared in every meeting"](#) – 23 Nov 2021
2. ["Structural merits look prominent amid transitional headwind and any stagflation expectation"](#) – 2 Nov 2021

**Figure 1: CRB revenue by segment 2017-23E**



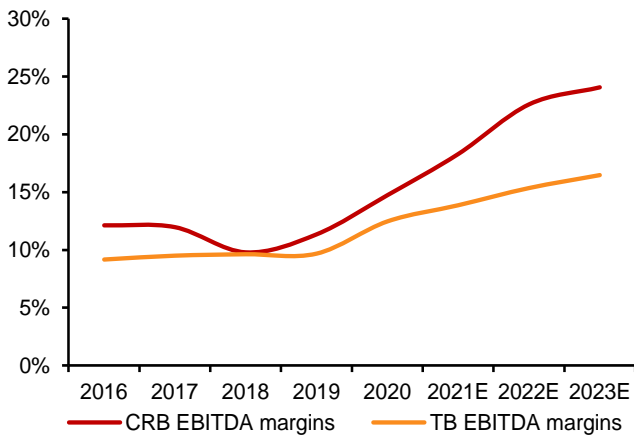
Source: Company data, CMBIS estimates

**Figure 2: Half year ASP and gross profits per kl**



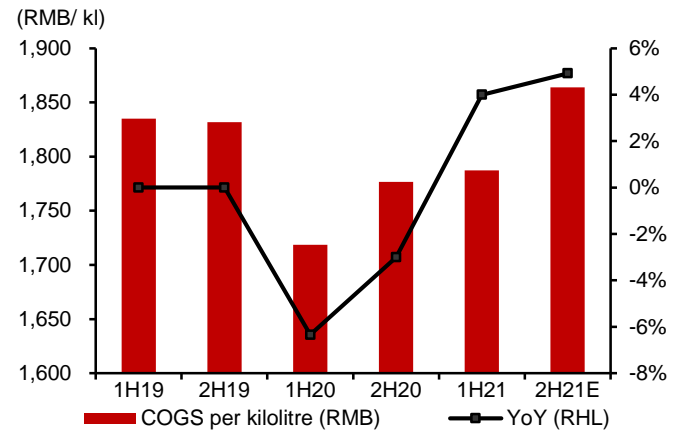
Source: Company data, CMBIS estimates

**Figure 3: CRB offers a higher EBITDA margin growth**



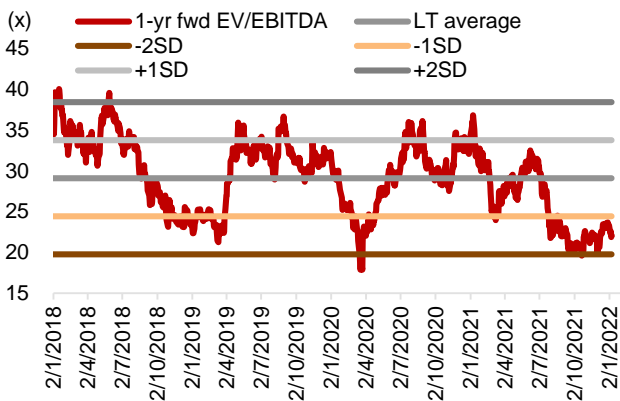
Source: Company data, CMBIS estimates

**Figure 4: We expect 2H21E COGS/ kl to up by 5%**



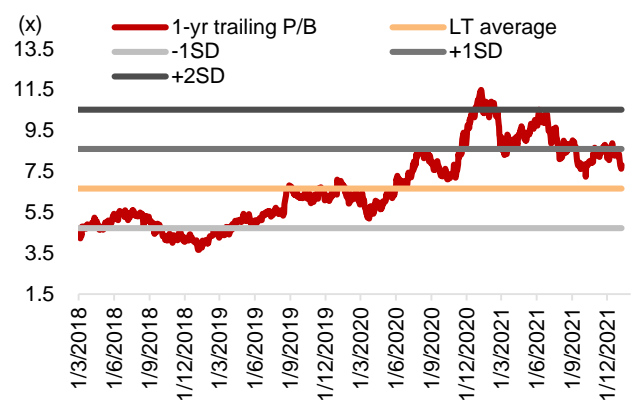
Source: Company data, CMBIS estimates

**Figure 5: 1-year forward EV/EBITDA chart**



Source: Bloomberg, CMBIS estimates

**Figure 6: Trailing P/B chart**



Source: Bloomberg, CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>33,190</b>	<b>31,448</b>	<b>33,393</b>	<b>35,852</b>	<b>38,454</b>	<b>Net income</b>	<b>1,312</b>	<b>2,094</b>	<b>4,431</b>	<b>4,588</b>	<b>5,402</b>
Premium & Super	6,779	7,300	9,786	12,634	15,986	D&A	1,601	1,553	1,575	1,623	1,669
Sub-premium	26,411	24,148	23,607	23,218	22,468	Change in working capital	75	(1,165)	(1,669)	(3,366)	(4,035)
						Others	1,110	1,200	-	-	-
<b>Gross profits</b>	<b>12,226</b>	<b>12,075</b>	<b>13,243</b>	<b>14,750</b>	<b>16,268</b>	<b>Net cash fr. operating act.</b>	<b>4,098</b>	<b>3,682</b>	<b>4,337</b>	<b>2,845</b>	<b>3,036</b>
D&A	(1,601)	(1,553)	(1,575)	(1,623)	(1,669)	Capex & investments	(1,490)	(1,043)	(1,252)	(1,189)	(1,130)
Selling expense	(5,925)	(6,123)	(6,345)	(6,453)	(6,729)	Acquisition	(2,216)	-	-	-	-
Administration expenses	(5,046)	(4,419)	(4,007)	(3,585)	(3,845)	Others	938	-	-	-	-
Other operating expenses	908	1,546	1,642	1,763	1,890	<b>Net cash fr. investing act.</b>	<b>(2,768)</b>	<b>(1,043)</b>	<b>(1,252)</b>	<b>(1,189)</b>	<b>(1,130)</b>
Others	1,601	1,553	1,575	1,623	1,669	Equity raised	-	-	-	-	-
<b>EBIT</b>	<b>2,163</b>	<b>3,079</b>	<b>4,533</b>	<b>6,474</b>	<b>7,584</b>	Change of Debts	1,875	(511)	-	-	-
EBITDA	<b>3,764</b>	<b>4,632</b>	<b>6,108</b>	<b>8,097</b>	<b>9,253</b>	Dividend paid	(487)	(536)	(840)	(1,772)	(1,835)
Finance costs, net	43	80	79	119	179	Others	(2,266)	606	-	-	-
Non-operating	(4)	(150)	1,755	-	-	<b>Net cash fr. financing act.</b>	<b>(878)</b>	<b>(441)</b>	<b>(840)</b>	<b>(1,772)</b>	<b>(1,835)</b>
<b>Pre-tax profit</b>	<b>2,202</b>	<b>3,009</b>	<b>6,367</b>	<b>6,593</b>	<b>7,763</b>	<b>Net change in cash</b>	<b>452</b>	<b>2,198</b>	<b>2,245</b>	<b>(117)</b>	<b>71</b>
Income tax	(892)	(915)	(1,936)	(2,005)	(2,361)	Cash at the beginning of the	1,858	2,340	4,538	6,783	6,666
Less: Minority interests	2	-	-	-	-	Exchange difference	30	-	-	-	-
<b>Net profit</b>	<b>1,312</b>	<b>2,094</b>	<b>4,431</b>	<b>4,588</b>	<b>5,402</b>	<b>Cash at the end of the year</b>	<b>2,340</b>	<b>4,538</b>	<b>6,783</b>	<b>6,666</b>	<b>6,737</b>
						Less: pledged cash	-	-	-	-	-

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>31,873</b>	<b>30,398</b>	<b>30,075</b>	<b>29,641</b>	<b>29,101</b>	<b>Sales mix (%)</b>					
PP&E/Fixed assets	19,413	17,781	17,522	17,152	16,676	Premium & Super premium	20.4	23.2	29.3	35.2	41.6
Goodwill	9,422	9,326	9,326	9,326	9,326	Sub-premium	79.6	76.8	70.7	64.8	58.4
Deferred tax assets	2,532	2,858	2,858	2,858	2,858	<b>P&amp;L ratios (%)</b>					
Other non-current assets	506	433	369	305	241	Gross margin	36.8	38.4	39.7	41.1	42.3
<b>Current assets</b>	<b>9,718</b>	<b>13,377</b>	<b>18,066</b>	<b>18,558</b>	<b>20,516</b>	Operating margin	6.5	9.8	13.6	18.1	19.7
Cash	2,340	4,538	6,783	6,666	6,737	Pre-tax margin	6.6	9.6	19.1	18.4	20.2
Account receivable	943	2,378	3,660	3,929	4,214	Net margin	4.0	6.7	13.3	12.8	14.0
Taxation recoverable	349	371	371	371	371	Effective tax rate	(40.5)	(30.4)	(30.4)	(30.4)	(30.4)
Other current assets	6,086	6,090	7,253	7,592	9,193	<b>Balance sheet analysis</b>					
<b>Current liabilities</b>	<b>19,856</b>	<b>19,572</b>	<b>20,347</b>	<b>17,589</b>	<b>15,441</b>	Current ratio (x)	0.2	0.3	0.4	0.4	0.3
Borrowings	511	-	-	-	-	Net receivable days	10.4	27.6	40.0	40.0	40.0
Account payables	19,061	19,327	20,102	17,344	15,196	Net payable days	331.9	364.1	364.1	300.0	250.0
Other payables	194	162	162	162	162	Inventory turnover days	107.9	95.0	104.8	113.3	130.0
Lease liabilities	90	83	83	83	83	Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
<b>Non-current liabilities</b>	<b>2,008</b>	<b>2,929</b>	<b>2,929</b>	<b>2,929</b>	<b>2,929</b>	<b>Returns (%)</b>					
Borrowings	-	-	-	-	-	ROE	10.4	13.0	13.9	17.5	18.3
Deferred tax liabilities	678	788	788	788	788	ROA	2.1	2.1	1.9	1.7	1.6
Other non-current liabilities	1,330	2,141	2,141	2,141	2,141	Dividend yield	0.4	0.6	0.8	1.2	1.4
<b>Minority Interest</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>57</b>	<b>Per share</b>					
<b>Total net assets</b>	<b>19,727</b>	<b>21,274</b>	<b>24,865</b>	<b>27,681</b>	<b>31,247</b>	EPS - recurring (RMB)	0.6	0.8	1.0	1.4	1.7
<b>Shareholders' equity</b>	<b>19,670</b>	<b>21,217</b>	<b>24,808</b>	<b>27,624</b>	<b>31,190</b>	DPS (RMB)	0.2	0.3	0.4	0.6	0.7
						BVPS (RMB)	6.1	6.5	7.6	8.5	9.6

Source: Company data, CMBIS estimates

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.